

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 AGR-10 OES-06 PA-02 PRS-01 /134 W

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R 302253Z JUL 76

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 1755

INFO AMEMBASSY CANBERRA

USMISSION GENEVA

USDEL MTN GENEVA

USMISSION OECD PARIS

UNCLAS WELLINGTON 2863

E.O. 11652: N/A

TAGS: EALR, EFIN, ECON, NZ

SUBJECT: FY-77 BUDGET ENCOURAGES EXPORTS AND DISCOURAGES CONSUMPTION

REF: 75 WELLINGTON 1483

1. SUMMARY

GNZ EXPENDITURE BUDGET FOR FY ENDING MARCH 31, 1977 IS INCREASED 4.8 PER CENT OVER FY-76 TO \$4,597 MILLION (ALL FIGURES IN NZ DOLLARS - NZ\$1 EQUALS APPROXIMATELY US\$1.00). INCOME IS TO RISE 10.8 PER CENT TO \$3,750 MILLION LEAVING A DEFICIT OF \$847 MILLION. THE FY-76 DEFICIT WAS REDUCED BY \$550 MILLION TO \$850 MILLION SINCE DECEMBER WHEN THE NEW NATIONAL GOVERNMENT TOOK OFFICE. BUDGET EMPHASIZES INCENTIVES TO INCREASE FARM AND INDUSTRIAL PRODUCTION FOR EXPORT. LOWER WAGE EARNERS ARE GIVEN SOME TAX RELIEF AND HELP TO BUY HOMES. INCREASED SALES TAXES ON SUCH ITEMS AS MARINE ENGINES, HOME ENTERTAINMENT EQUIPMENT, INCLUDING RADIOS AND TV SETS, ARE AIMED AT REDUCING CONSUMPTION AND IMPORTS. NEW 10 PER CENT SALES TAXES ON MACHINERY OTHER THAN DAIRYING, AGRICULTURE, FARMING, FORESTRY AND

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FISHERIES ARE CREATED PRIMARILY TO DISCOURAGE IMPORTS.

DUTIES ON TOBACCO PRODUCTS AND EXCISE AND CUSTOMS DUTIES ON ALCOHOL ARE INCREASED. ALL INTERNATIONAL TRAVEL (EXCEPT TO CERTAIN PACIFIC ISLANDS) WILL BE TAXED 10 PER CENT. TAXES ON COMPANIES, LIFE INSURANCE COMPANIES, AND LAD ARE CHANGED TO INCREASE REVENUE. INDUCEMENTS ARE CREATED TO GET PRIVATE INDUSTRY MORE INTO HOUSING CONSTRUCTION AND GOVERNMENT OUT OF HOUSING. END SUMMARY.

2. THE EMPHASIS ON ENCOURAGING INCREASED AGRICULTURAL PRODUCTION AND EXPORTS INCLUDES SUCH MEASURES AS: (A) INTEREST FREE LIVESTOCK SUSPENSORY LOANS OF \$12 PER HEAD FOR LIVESTOCK INCREASES ABOVE CERTAIN MINIMUMS (TO BE CONVERTED TO A TAX FREE GRANT AFTER TWO YEARS OF SUSTAINED PRODUCTION) OR A \$24 PER HEAD DEDUCTION FROM ASSESSABLE INCOME ON QUALIFYING LIVESTOCK; (B) ADDITIONAL FUNDS FOR ANIMAL HEALTH AND NOXIOUS PLANT CONTROL SCHEMES, GRANTS FOR INCREASED ALFALFA PLANTING; (C) SPECIAL SETTLEMENT LOAN SCHEME (UP TO 85 PER CENT OF VALUE) OR A TAX DEDUCTIBLE FARM OWNERSHIP SAVINGS SCHEME FOR YOUNG FARMERS; (D) CONTINUING THE FERTILIZER TRANSPORT SUBSIDY AND ALSO CONTINUING FERTILIZER SPREADING BOUNTY WITH A ONE DOLLAR INCREASE IN AIRSPREAD AND A 50 CENT DECREASE IN GROUNDSREAD. (HOWEVER, THE FERTILIZER PRICE SUBSIDY IS REDUCED BY \$10 TO \$25 PER MT); (E) GIVING A SPECIAL 40 PER CENT INVESTMENT ALLOWANCE FOR NEW FARMING PLANT AND MACHINERY; (F) GIVING A 10 CENTS A BUSHEL REBATE ON FANCY GRADE FRUIT SOLD TO THE APPLE AND PEAR MARKETING BOARD (FOR EXPORT) FOR BEING PEST FREE; (G) GIVING THREE PER CENT INTEREST ON FARM INCOME EQUALIZATION RESERVE ACCOUNTS. (NO INTEREST HAS BEEN PAID TO NOW).

3. EXPORT INCENTIVES TO MANUFACTURERS INCLUDE: (A) A 20 PER CENT INCREASED INVESTMENT ALLOWANCE FOR NEW PLANT AND MACHINERY INTENDED TO INCREASE EXPORT PRODUCTION. (ONLY FIRMS ACHIEVING A SIGNIFICANT EXPORT PERFORMANCE OR WHICH ARE PLANNING

SUBSTANTIAL INCREASES IN PRODUCTION FOR EXPORT - NORMALLY 40 PER CENT - WILL QUALIFY). FIRMS IMPLEMENTING GOVERNMENT APPROVED PROGRAMS BASED ON SPECIAL INDUSTRY STUDIES CAN QUALIFY FOR A 40 PER CENT INVESTMENT ALLOWANCE ON PLANT AND MACHINERY. (B) FIRMS INVESTING IN REGIONS DESIGNATED AS HIGH PRIORITY FOR DEVELOPMENT CAN GET ANOTHER ALLOWANCE VARYING FROM 5 PER CENT UNCLASSIFIED

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UP TO 20 PER CENT DEPENDING ON THE REGION. (ROAD TRANSPORT OPERATORS SERVICING INDUSTRIES IN THESE REGIONS ALSO WILL QUALIFY FOR THESE ALLOWANCES). (C) FIRST YEAR DEPRECIATION ALLOWANCE ON ALL PLANT AND MACHINERY FOR CERTAIN EXPORT INDUSTRIES (SUCH AS MEAT EXPORT WORKS AND WOOL SCOURING PLANTS) NOT QUALIFYING FOR AN INVESTMENT ALLOWANCE. (D) FUTURE PROVISION FOR ENCOURAGING INCREASED LOCAL CONTENT WILL BE MADE.

4. NEW FISHING BOATS AND NEW FISH FARMING PLANT AND MACHINERY OTHER THAN ON-SHORE PROCESSING FACILITIES CAN ALSO QUALIFY FOR AN INVESTMENT ALLOWANCE OF 40 PER CENT.

5. EXISTING EXPORT INCENTIVES ARE TO BE CONTINUED UNTIL MARCH 1980. (NEW MARKETS EXPORT TAXATION INCENTIVES EXPIRE MARCH 1981).

6. THE DEVELOPMENT FINANCE CORPORATION WILL BE RESPONSIBLE FOR PRODUCT DEVELOPMENT THROUGH TO MARKETING AND FOR HANDLING GOVERNMENT SPONSORSHIP OF CONSORTIUMS OF NZ FIRMS IN FOREIGN VENTURES.

7. TO HELP GROWTH OF TOURIST ACCOMMODATION FACILITIES THE GOVERNMENT WILL GUARANTEE CERTAIN APPROVED LOANS. A FIRST YEAR DEPRECIATION ALLOWANCE OF 22 PER CENT CAN STILL BE OBTAINED FOR APPROVED LICENSED TOURIST ACCOMMODATION. A TEN PER CENT ALLOWANCE FOR OTHER NEW HOTELS AND MOTELS.

8. A NEW ENERGY PRICING POLICY IS TO BE INTRODUCED LATER.

9 TO INCREASE REVENUE THE PRESENT PROGRESSIVE COMPANY TAX WILL BE REPLACED BY A FLAT-RATE COMPANY TAX OF 45 PER CENT FOR NZ COMPANIES AND 50 PER CENT FOR NON-RESIDENT COMPANIES. LIFE INSURANCE COMPANIES' MAXIMUM TAX IS INCREASED FROM 18 TO 30 PER CENT. THE 50 PER CENT REBATE ON LAND TAX ON OWNED-LAND WILL BE ABOLISHED. THESE MEASURES SHOULD YIELD \$31 MILLION MORE YEARLY INCOME.

10. YOUNG FAMILIES ON LOW INCOMES WITH A PRE-SCHOOL CHILD WILL GET A TAX REBATE (UP TO \$6 PER WEEK FOR THOSE WHOSE INCOME IS LESS THAN \$100 PER WEEK DECREASING TO ZERO FOR INCOMES OF \$140 AND OVER).

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11. THE NEW NATIONAL SUPERANNUATION SCHEME WON'T START UNTIL FEBRUARY 1977 AND WILL BE FULLY OPERATIVE BY AUGUST, 1978.

12. SOCIAL WELFARE BENEFITS WILL BE INCREASED ABOUT \$5 FOR MARRIED COUPLES AND \$3 FOR SINGLE PERSONS. A FURTHER COST-OF-LIVING ADJUSTMENT WILL BE GIVEN JANUARY, 1977. ONE MORE CHRISTMAS BONUS WILL BE GIVEN.

13. TO HELP THOSE WISHING TO BUY HOMES, FROM APRIL 1977 A \$200 TAX EXEMPTION WILL APPLY TO DEPOSITS WITH BUILDING SOCIETIES. THE POST OFFICE WILL SOON AFTER 5 YEAR HOUSING BONDS AT 9 PER CENT INTEREST. INSURANCE COMPANIES WILL BE REQUIRED TO HOLD 20 PER CENT OF THEIR INVESTMENTS IN

HOUSING AND FARMING SECTORS. OTHER HOME OWNERSHIP AND
MORTGAGE QUARANTEE SCHEMES ARE PROVIDED FOR.

14. FOREIGN AID IS TO BE CUT TO \$51 MILLION WITH ONE-HALF
GOING TO THE PACIFIC ISLAND COUNTRIES.

15. MORE DETAILS ON THE BUDGET AND AN ANALYSIS WILL
FOLLOW IN A LATER TELEGRAM.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, EXPORTS, TAX INCENTIVES, ANTIINFLATIONARY PROGRAMS, GOVERNMENT EXPENDITURES
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976WELLIN02863
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760296-0162, D760296-0091
From: WELLINGTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976072/aaaaaboe.tel
Line Count: 178
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 WELLINGTON 1483
Review Action: RELEASED, APPROVED
Review Authority: hackerp0
Review Comment: n/a
Review Content Flags:
Review Date: 27 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 FEB 2004 by ThomasVJ>; APPROVED <06 JAN 2005 by hackerp0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FY-77 BUDGET ENCOURAGES EXPORTS AND DISCOURAGES CONSUMPTION
TAGS: EALR, EFIN, ECON, NZ
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006